



Mayor, Thomas P. Hanafan

To the Honorable Members of the City Council:

In accordance with the laws of the State of Iowa, I hereby submit my proposed budget for fiscal year 2006 – 2007. This budget represents the second year of a three-year budget review conducted last winter. As expected, the taxable valuation grew modestly when compared against the inflationary costs of running a local government. No cuts to services or the labor force are contemplated in this budget. Supplies and services were adjusted to reflect higher utility and gasoline costs and then allowed to grow by 2% across all departments.

One new revenue source has been added for this budget cycle; the gas and electric franchise fee. This fee will be introduced at 4% and applied to all gas and electric bills within the city limits. Upon enactment of this fee, the 2% local option sales tax currently applied to gas and electric bills will be removed. Since 1% of the sales tax is allocated to the school district, the City will need to enter into an agreement to transfer 1% of the gas and electric franchise fee revenue to them. The additional revenues the City receives will be used to pay for electric costs for street lighting, allows for personnel costs to be shifted back into the general fund, and most importantly allows for a 10-cent decrease of the property tax rate.

For those reading a city budget for the first time, recognize that governmental finances originate and disburse from a multitude of different funds. Each fund has its own rules governing the generation of the revenues and the expenditure of the revenues. While expenditure and revenue adjustments can be made to balance funds such as the General Fund, Road Use Tax, and Sewer Rental, others funds such as Trust & Agency

and Debt Service are much more complicated and expenditures from these funds are dictated by law, bond market requirements, labor contracts and established policies.

This budget has a new format that should be easier to read. In the past, revenues and expenditures were separated and it was difficult to see how fund balances would be affected. For this budget cycle and those to come, expenditures will be compiled two different ways; first by fund to illustrate overall performance expectations; and second by department to highlight functions that are performed. Detail is provided for both sections, but only when reasonable thresholds are met. For example, only expenditures of \$10,000 or greater have been given their own line item.

SO, how are we doing?

It is imperative to review how we managed to get to this point. With growth and development also comes the responsibility of providing essential governmental services. However, it is a fact that despite the growth in the City, our cash balances in the general fund have been depleted. Prior to this trend of difficult budget cycles, the City ended FYE 1999 with a \$2.3 million general fund operating cash balance. Increasing service demands, significant state budget cuts and the decreasing rollback have diminished this reserve to only \$277,697 as of June 30, 2004. Fortunately, we have regained control of this negative trend and the cash fund balance for June 30, 2005 increased to \$523,494. The projected balance for June 30, 2006 is \$776,768.

The general operating fund balance (page 1) is budgeted to increase to \$979,709 by June 30, 2007. This ending balance would be 2.65% of annual expenditures. A benchmark for financially sound municipalities is 25% of annual expenditures. It is critical to remember that the fund balance on June 30th reflects a snapshot shortly after spring property taxes have been collected. During the months preceding tax collections, the fund balance has been significantly negative. A fund balance of 25% on June 30th of each year enables the City to:

- 1) keep the fund balance positive even in the months preceding tax collections,

- 2) endure three to four years of stagnant valuation growth without layoffs,
- 3) increase the City's bond rating and thus receive lower interest rates on debt.

The proposed FYE 2008 budget will be designed to continue the progress of increasing fund balance by a minimum of \$200,000.

As with previous budget cycles, fiscal challenges persist, but to a lesser degree. Revenue generation continues to be constrained by the dropping rollback and certain costs that are either controlled by the State or are simply difficult to control, such as health insurance costs, continue to rise dramatically. For the first year in five, however, no cuts are contemplated.

Details of this Budget

Revenue Summary

- 1) Market valuations of the City increased 12%
- 2) Residential rollback dropped from 48% to 46%
- 3) Commercial rollback dropped from 100% to 99.1%
- 4) Total taxable valuation of the City increased 7.3%
- 5) Tax rates proposed to decrease by 10 cents to \$18.294 (0.5% decrease)

Expenditures

The City had been operating with zero increases to supplies and services for several years. The results of this practice have caught up with us in that capital equipment replacement has not been allowed to occur following normal depreciation schedules. Buildings and equipment are now being stretched well beyond their expected life with repair costs increasing to the point certain equipment and facilities must simply be replaced. We have addressed some of these issues with bond proceeds and gaming funds. The 2% increase to supplies for this budget cycle will allow for a minimal amount of purchases. Future budgets will need to include greater increases to supplies and capital expenditures.

Gaming Budget

Gaming revenues are budgeted at \$4.9 million. Transfers to general fund wages and supplies are planned at \$1,500,000. \$1,100,000 is budgeted to be transferred to health insurance costs. \$600,000 is planned to subsidize the debt service levy. All three expense figures represent decreases from the previous budget and therefore progress toward using less gaming funds to subsidize operations. Remaining funds will go to economic development obligations and capital needs including facilities and equipment.

What does the future hold?

It is clear to me that Council Bluffs as well as the other cities in Iowa will start to recover from their economic hardships. As more resources become available, citizens and elected officials need to closely examine the level of services actually required and balance the cost of those services with the funds available in property tax dollars and user fees. The City will continue to work closely with bargaining groups to offer competitive wages, reasonable benefits, and safe and productive working environments. The City will remain at the \$8.10 levy cap and will continue to utilize the emergency levy.

Property tax reform by the State is still very necessary if Council Bluffs is to compete on a more level field with Omaha for commercial development. The rollback dropped another 2% for this budget cycle and shows no signs of letting up. The same tax rate must be applied to residential and commercial property. As taxable valuation for residential property decreases, commercial property must absorb more of the tax burden. City officials will continue to educate legislators on this and other important municipal topics.

Last year's budget message included three goals to be addressed when the financial environment improved:

- 1) Recover balances to reasonable levels
- 2) Reduce the use of gaming revenues for operations
- 3) Reduce the use of local option sales tax revenues for debt service

This budget assures progress in all three areas and accomplishes a fourth goal of accounting for personnel expenses more accurately within the cost center that they are assigned. Discussions will be necessary in the near future to formulate policies on appropriate fund balance levels and uses for sales tax and gaming revenues.

Market values for January 1, 2006 which will be used for budget fiscal year 2007-08 appear to have increased dramatically and may afford our city leaders the luxury of having discussions about growing in a responsible and sustainable manner. Given the challenges that come with additional revenue potential, the budget cycle for FYE 2008 will start much sooner and be focused on needs, and NOT how much is available to be spent.

Summation

The City has survived a multi-year cycle of difficult budgets. Fund balances have been depleted, but the revenues in this budget are sufficient to keep our services at status quo and increase discretionary supplies and services by 2%. The tax rate can be sustained at a lower level, and thus a 10-cent decrease has been proposed.

Sincerely,

Thomas P. Hanafan
Mayor